

DCI BRIEFING

22 May 1961

SOVIET ECONOMY

- I. Soviet economy still growing at rapid rate over-all.
 - A. GNP currently little less than half of US but expanding about twice as fast (c. 6% annually).
 - B. Industrial part of Seven Year Plan (1959-65) ahead of schedule. Soviets claim in last two years industrial output grew over 22 percent against 17 percent demanded by plan schedule.
 - C. Latest report--first quarter 1961--shows some slowing in rate of industrial growth but should not be interpreted as a sign that industry is in difficulty.
 1. May reflect Khrushchev's decision announced in January to transfer some industrial funds to support lagging agricultural production.
 2. Also, transfer during second half 1960 of final two-thirds of some 60,000,000 wage earners from 46 to 41 hour work week probably slowed industrial growth temporarily.
 - D. Khrushchev in January firmly restated claim that USSR will outstrip US in economic field by 1970, thereby "defeating" capitalism without war.
 1. This goal not feasible, but in basic industrial commodities Soviet progress is impressive. Already ahead of US in output of iron ore and coal. (However, iron

ore comparison deceptive. US production of 85 million metric tons is supplemented by imports of 15 million tons from Venezuela and 11 million tons from Canada; furthermore, nearly 50 percent of steel production comes from scrap metal rather than ore. USSR produced 107 million metric tons of iron ore but does not import and uses far less scrap.)

2. Steel output now about 95 percent of current US level. Machine tool output considerably ahead.

3. By 1965, more basic commodities, (e.g., cement and power generators) will be close to US output.

E. Dollar value Soviet investment in industry in 1960 exceeded highest US figure (1957) and before end of 60's output of heavy industry will be close to US.

II. Soviets increasingly able to allocate resources for strategic purpose--defense, science, foreign operations.

A. Defense spending about equal to ours. (measured in dollars)

B. This achieved at expense of consumer but preference for incentives over coercion brings noticeable improvement in this area, too.

III. Noticeable improvements in living standards made and regime evincing increasing concern for consumers.

A. Remarks by Khrushchev at British Fair in Moscow on 20 May imply a greater priority for light industry.

1. 1961 plan called for a 9.5 percent increase in output of heavy industry and a 6.9 percent increase for light industry. Presumably in the future planned rates of growth will be more nearly equal.
2. Light industry base is small compared to that of heavy industry; hence change in rates can be accomplished without major shift of resources or jeopardizing Seven Year plan goals.
3. Such policy changes in favor of consumer have been common during Khrushchev regime and are intended to provide material incentive, improve foreign image of life in USSR and promote support among citizenry for regime.

B. Recent Western press reports of food shortages should be discounted. Poor agricultural showing in 1959 and 1960 has somewhat restricted supplies--particularly meat--but food per capita far greater than during Stalin's day.

IV. Important trouble spots remain.

- A. Housing shortage still acute. Gagarin, in top 1/2 percent income group, received from grateful Soviet state for self and five dependents a four room flat. More housing remains priority objective.

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- B. Organizational adjustments continue, particularly in the administrative and planning apparatus.
- C. Agriculture remains weakest part of the economy. Seven Year Plan calls for a 55 to 60 percent net increase over 1958 in agricultural output, but actual increase almost certain to be much smaller and slight progress toward goal made through 1960.
 - 1. Regime has launched massive attack on agriculture's woes including the firing of Agricultural Minister last December, a "no holds barred" Central Committee meeting on agriculture in January, a just completed top-to-bottom reorganization of agricultural management, and apparently some additional investment in agriculture.
 - 2. New approach could improve situation but will take time. Soviet agriculture still tied to vagaries of weather and backwardness of farming techniques and attitudes.
 - 3. Latest reports show better than average weather for agriculture this season but it is too early to forecast outcome.

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